

Your VESTED



INTEREST

North Dakota State Investment Board

September 2003



HOW DO WE MEASURE UP?

Do you know how the Teachers' Fund for Retirement (TFFR) and the Public Employees Retirement System (PERS) manage their investment programs?

It is probably a good guess to assume that you know the answer is, "yes, the State Investment Board (SIB) takes care of it." This is true, and leads to another question. "If the SIB uses the same asset classes and investment managers for both pension funds and virtually all of the investments are pooled together, why does the return over any given period differ between TFFR and PERS?" If you are a regular reader, then two words have already popped into your mind... asset allocation.

TFFR and PERS use the same ten asset classes. In some cases, such as stocks of American companies, they slice up the investable universe into "Large Cap" (big companies) and "Small Cap" (small companies). And just to keep you on your toes, they call stocks, "equities." The same thing happens with bonds (fixed income) and other highly defined asset classes, but in the final analysis, you can boil it down to two major categories: equities and fixed income. Exhibit 1 below shows the ten asset classes used and which major category they fall into.

For reasons specific to the individual funds (as explained in previous

newsletters), TFFR and PERS have different percentages of their funds invested in most of the asset classes shown. If you think in a macro sense, the result is that the equity-to-fixed income ratio for each fund is different. So, essentially, when stocks do better than bonds, the fund with more stocks relative to bonds performs better and vice versa.

The job of the SIB is to try to have good performance within each of the asset classes, while keeping risk under control. We have our share of tough times, but we use an independent consultant to monitor performance and report on how our results stacked up against other public pension funds. Of course, to unintentionally complicate the matter, they categorize things just a little differently. For example, instead of reporting Large Cap Domestic Equity and Small Cap Domestic Equity separately, they combine them into Domestic Equity. The same goes for other asset classes, but virtually all of the assets are accounted for, just sliced up a little differently. Exhibit 2 (inside) is the consultant's report on how our performance ranked by asset class for fiscal year 2003.

Continued inside...

EXHIBIT 1

Equities	Fixed Income
Large Cap Domestic Equities	Domestic Fixed Income
Small Cap Domestic Equities	High Yield Fixed Income
International Equities	International Fixed Income
Emerging Market Equities	Real Estate
Private Equity	Cash Equivalents

State Investment Board

Lt. Governor Jack Dalrymple, *Chair*
Weldee Baetsch, Brent Edison,
Kathi Gilmore, David Gunkel, Paul Lofthus,
Jim Poolman, Gary Preszler, Howard Sage,
Mark Sanford, Norman Stuhlmiller

RIO Administrative Office

Steve Cochrane, *Executive Director/CIO*
Fay Kopp, *Deputy Director/Retirement Officer*
Shelly Schumacher, *Editor*

ND Retirement and Investment Office

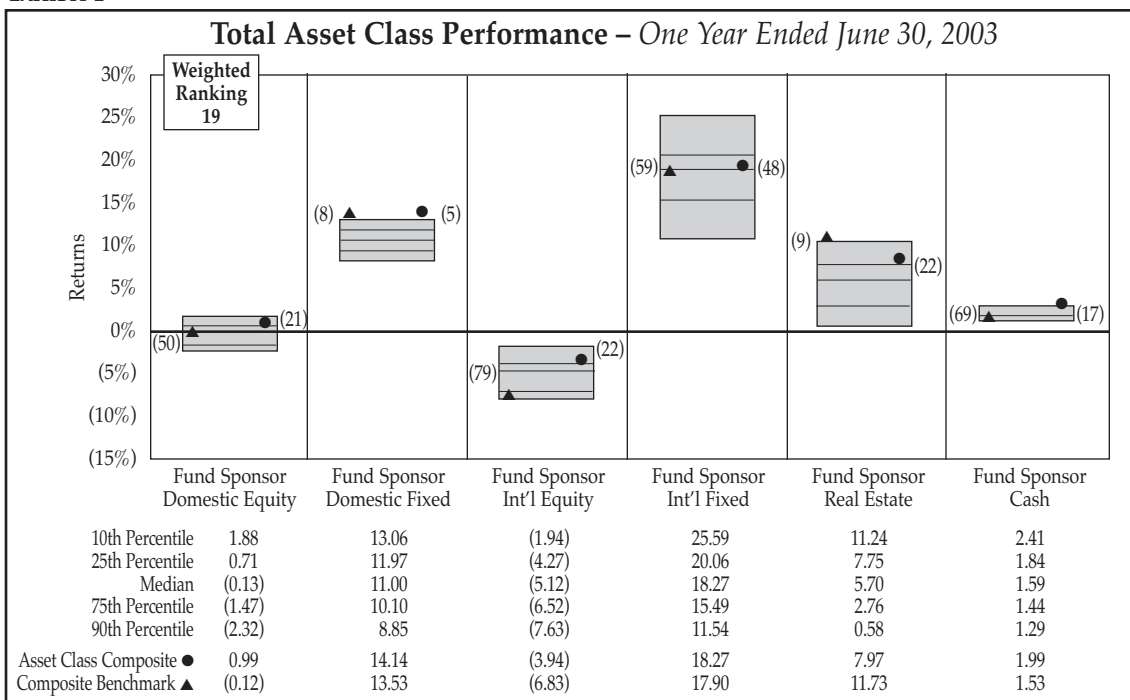
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HOW DO WE MEASURE UP? *Continued from front cover*

This is called a “floating bar chart.” The vertical axis shows investment rates of return while six asset classes are plotted on the horizontal axis. The space taken up by each bar represents the range of returns for managers in the database. The diamond shape on the left side of each bar is how the relevant benchmark performed for the one year period ending June 30, 2003. The circle shape is how the SIB portfolio ranked within the universe. Each shape has an associated number ranking. For example, in the first category, Domestic Equity, our portfolio outperformed the benchmark by more than 1% and ranked in the top 21% of all funds in the database. Each bar reads similarly, so you can quickly scan the data for some good information. Overall, you can see that the relative performance has been very good. In fact, in five out of six asset classes, our returns were in the top quartile of all public funds in this database. Only International Fixed Income failed to reach that height, settling instead for a better than average 48th percentile. In an effort to improve performance potential in this asset class, the SIB recently added a second manager.

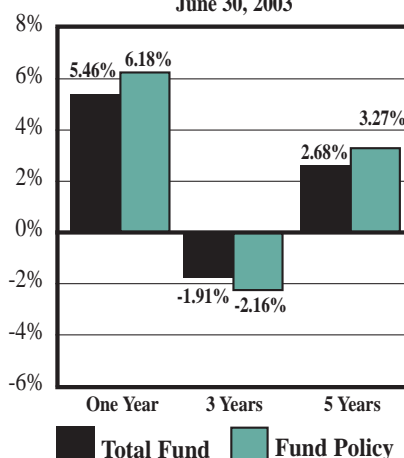
EXHIBIT 2



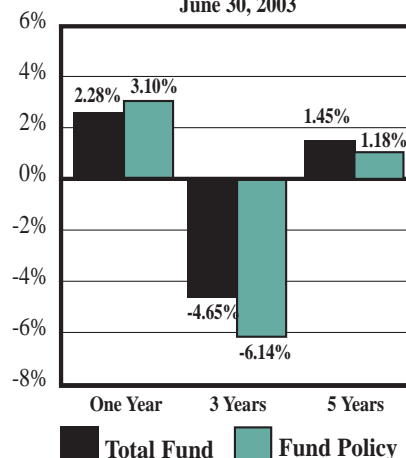
So, what does all this have to do with TFFR and PERS, anyway? Well, as you can imagine, both of the pension funds participate in each of these asset classes. The unique asset allocation for each fund drives their exposure to each asset class. Depending on which markets are doing well or poorly over any given period, the fund will reflect the results in its performance. Overall, the TFFR has more of its plan invested in stocks than PERS does. So, basically, when bonds do better than stocks, PERS does better than TFFR. Notice in Exhibit 2 how much better the fixed income asset classes did than the equity classes. And that's the story of fiscal year 2003.

INVESTMENT PERFORMANCE

INVESTMENT PERFORMANCE
SUMMARY – PERS
June 30, 2003



INVESTMENT PERFORMANCE
SUMMARY – TFFR
June 30, 2003



TARGET ASSET ALLOCATION FOR PERS & TFFR

Period Ended June 30, 2003

ASSET ALLOCATION	% OF TOTAL, PERS	% OF TOTAL, TFFR
Domestic Large Cap Equity	30.0%	30.0%
Domestic Small Cap Equity	10.0%	10.0%
International Equity	10.0%	20.0%
Emerging Markets Equity	5.0%	5.0%
Domestic Fixed Income	24.0%	7.0%
High Yield Fixed Income	5.0%	7.0%
International Fixed Income	5.0%	5.0%
Real Estate	5.0%	9.0%
Private Equity	5.0%	5.0%
Cash Equivalents	1.0%	2.0%
Total Fund	100.0%	100.0%

SIB ELECT OFFICERS

The State Investment Board (SIB) recently held its annual election of officers. The SIB chose the following members to hold leadership positions for the 2003-2004 fiscal year:



Chairman
Lt. Governor
Jack Dalrymple



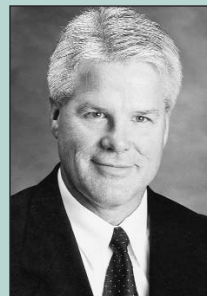
Vice-Chair
Howard Sage



Parliamentarian
Norm Stuhlmiller

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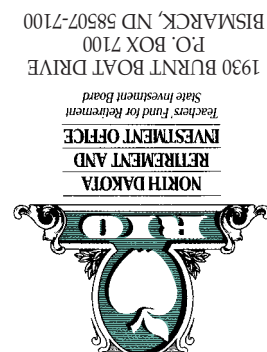
Brent Edison
*Workforce Safety
and Insurance*



Rebecca Dorwart
MDU Resources

SIB AUDIT COMMITTEE APPOINTED

The five member SIB Audit Committee has a couple of new faces in 2003-04. Brent Edison, Executive Director of Workforce Safety & Insurance has replaced State Treasurer Kathi Gilmore, and Rebecca Dorwart of MDU Resources has replaced Daryl Splichal. The remaining members of the committee are Norm Stuhlmiller, TFFR Board member; David Gunkel, PERS Board member; and Korrine Lang, Job Service North Dakota.



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